

FINANCIAL REPORT
ALANSON AREA PUBLIC LIBRARY
June 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Alanson Area Public Library	County Emmet
Audit Date 6/30/04	Opinion Date 10/22/04	Date Accountant Report Submitted to State: 12/24/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as required.
2. We are certified public accountants registered to practice in Michigan.

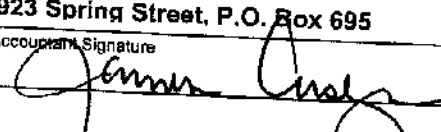
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name) Hill, Schroderus & Co., LLP			
Street Address 923 Spring Street, P.O. Box 695		City Petoskey	State MI
Accountant Signature 		ZIP 49770	Date 12-23-04

ALANSON AREA PUBLIC LIBRARY
FINANCIAL REPORT
June 30, 2004

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Hill • Schroderus & Co., LLP
Certified Public Accountants & Consultants

October 22, 2004

Independent Auditors' Report

Board of Trustees
Alanson Area Public Library
Alanson, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Alanson Area Public Library, Michigan, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Alanson Area Public Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Alanson Area Public Library as of June 30, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Alanson Area Public Library has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of July 1, 2003.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Hill Schroderus & Co.

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan

Alanson Area Public Library

7631 Burr Avenue

Alanson, MI 49706

231-548-5465

Management's Discussion and Analysis

Overview of the Basic Financial Statements

Alanson Area Public Library's basic financial statements include three financial statements and notes to the financial statements. This report also contains required and other supplemental information in addition to the basic financial statements. This is also the first year of implementation of GASB statement No. 34. Because the Library is audited on a bi-annual basis, prior year numbers are not presented within the Management's Discussion and Analysis.

Under GASB statement No. 34, the Library is considered to be a special purpose governmental unit due to engaging in only one type of activity. Therefore, the statement of net assets is combined with the balance sheet and the statement of activities is combined with the statement of revenues, expenditures and change in fund balance statement. The statement of revenues, expenditures, and changes in fund balance - budget to actual was prepared on the modified accrual basis.

Government-wide Financial Columns

The government-wide columns (Statement of Net Assets and Statement of Activities) are designed to provide readers with a broad overview of the Library's finances, in a manner similar to a private-sector business.

The Statement of Net Assets displays all of the Library's assets and liabilities, with the difference reported as *net assets*. All long-term assets and debt obligations are presented.

The Statement of Activities focuses on the gross and net cost of the Library's operations.

Fund Financial Columns

The focus of the fund financial columns is on the sources and uses of funds during the current year.

The Library maintains one individual governmental fund. Information is presented in the governmental fund balance sheet column and the governmental fund statement of revenues, expenditures and changes in fund balances column.

Notes to the Financial Statements

The notes provide additional information which is essential to a full understanding of the data provided in the financial statements.

Government-wide Financial Analysis

The table below summarizes the Library's net assets as of June 30, 2004:

ALANSON AREA PUBLIC LIBRARY June 30, 2004

	Governmental Activities
Assets	
Current and other assets	
Capital assets - net of accum dep	\$ 188,693
	<u>13,201</u>
Total assets	<u>201,894</u>
Liabilities	
Current liabilities	
	<u>547</u>
Net Assets	
Investment in capital assets	13,201
Unrestricted	<u>188,146</u>
Total net assets	<u>\$ 201,347</u>

At the end of the fiscal year, the Library is able to report positive balances in both categories of net assets. The first portion of the Library's net assets is its investment in capital assets (books). The Library uses these capital assets in providing recreational and educational services, consequently these assets are not available for future spending.

The remaining portion of net assets, unrestricted net assets, may be used at the Library's discretion to meet ongoing obligations.

The results for the Library as a whole are reported in the Statement of Activities, which is summarized below:

ALANSON AREA PUBLIC LIBRARY
Year Ended June 30, 2004

	<u>Governmental Activities</u>
Revenue	
Program revenue:	
Charges for services, book sales, fees and fines	\$ 4,038
General revenue:	
Penal fines	39,577
State Aid, unrestricted	2,310
Interest earnings	<u>3,816</u>
Total revenues	<u>49,741</u>
Function Expenses	
Library	<u>26,175</u>
Change in net assets	23,566
Net assets - beginning of year	<u>177,781</u>
Net assets - end of year	<u><u>\$ 201,347</u></u>

As reported above, the Library recorded \$26,175 of expenses. The majority of the Library's activities were funded by State of Michigan Penal Fine Distributions.

Fund Financial Analysis

As of year end, the governmental fund reported a fund balance of \$188,146, which is \$25,365 more than the beginning of the year.

General Fund Budgetary Highlights

Final revenues were higher than final budgeted amounts by \$4,227. This was mainly due to penal fines being more than anticipated.

Final expenditures were also lower than final budgeted amounts by \$6,256. This was mainly due to not amending the budget for books, membership dues and miscellaneous costs that were lower than expected.

Capital Assets

At June 30, 2004 the Library had \$48,201 invested in capital assets. The following table summarizes the capital asset activity for the year:

	ALANSON AREA PUBLIC LIBRARY Year Ended June 30, 2004			
	<u>July 1, 2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2004</u>
Books	\$ 50,000	\$ 3,201	\$ 5,000	\$ 48,201
Less accum depreciation	<u>35,000</u>	<u>5,000</u>	<u>5,000</u>	<u>35,000</u>
Net capital assets	<u>\$ 15,000</u>	<u>\$ (1,799)</u>	<u>\$ -</u>	<u>\$ 13,201</u>

The current year addition to capital assets was for the purchase of new books and the disposals were for old books that were disposed of to create room for new books. The Library is confined to a small space and therefore as new books are added, old books must be disposed of in order to keep a collection of books that readers will use.

Economic Factors

The library is primarily funded by state penal code fines collected in Emmet County and distributed to libraries within the county on a per capita basis. The funding has been adequate to accumulate a fund balance sufficient to provide for continued services in the future as well as possible future development and improvement of the Library's current building or a new building.

Financial Contact

The Library's financial statements are designed to present users with a general overview of the Library's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed towards the Library's office.

ALANSON AREA PUBLIC LIBRARY
GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS
June 30, 2004

	General Fund Modified Accrual Basis	Adjustments	Statement of Net Assets
<u>Assets</u>			
Cash	\$ 188,693	\$ -	\$ 188,693
Fixed assets, net of accumulated depreciation	-	13,201	13,201
Total assets	<u>\$ 188,693</u>	<u>\$ 13,201</u>	<u>\$ 201,894</u>
<u>Liabilities and Fund Balance/Net Assets</u>			
Liabilities:			
Accrued expenses	\$ 547	\$ -	\$ 547
Fund balance - unreserved			
Designated	100,000	(100,000)	-
Undesignated	88,146	(88,146)	-
Total fund balance	<u>188,146</u>	<u>(188,146)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 188,693</u>		
Net Assets:			
Invested in capital assets		13,201	13,201
Unrestricted		188,146	188,146
Total net assets		<u>\$ 201,347</u>	<u>\$ 201,347</u>

See accompanying notes to financial statements.

ALANSON AREA PUBLIC LIBRARY
STATEMENT OF GOVERNMENTAL FUND REVENUE, EXPENDITURES, AND CHANGES
IN FUND BALANCE/STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

	General Fund Modified Accrual Basis	Adjustments	Statement of Net Assets
Revenues:			
State grants	\$ 2,310	\$ -	\$ 2,310
Penal fines	39,577	-	39,577
Charges for services	3,000	-	3,000
Book sales	678	-	678
Interest	3,816	-	3,816
Fees and fines	360	-	360
	<u>49,741</u>	<u>-</u>	<u>49,741</u>
Total revenues			
Expenditures:			
Salaries	11,964	-	11,964
Payroll taxes	1,231	-	1,231
Rent	3,000	-	3,000
Books	3,201	(3,201)	-
Membership dues	2,518	-	2,518
Telephone	684	-	684
Supplies	511	-	511
Insurance	276	-	276
Education	136	-	136
Transportation	212	-	212
Miscellaneous	643	-	643
Depreciation	-	5,000	5,000
	<u>24,376</u>	<u>1,799</u>	<u>26,175</u>
Total expenditures			
Excess (deficiency) of revenues over expenditures	25,365	(1,799)	23,566
Fund balance, beginning	162,781	15,000	177,781
Fund balance, ending	<u>\$ 188,146</u>	<u>\$ 13,201</u>	<u>\$ 201,347</u>

See accompanying notes to financial statements.

ALANSON AREA PUBLIC LIBRARY
STATEMENT OF REVENUES , EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Over/(Under) Budget
Revenues:				
State grants	\$ 3,000	\$ 3,000	\$ 2,310	\$ (690)
Penal fines	33,514	33,514	39,577	6,063
Charges for services	3,000	3,000	3,000	-
Book sales	1,000	1,000	678	(322)
Interest	5,000	5,000	3,816	(1,184)
Fees and fines	-	-	360	360
Total revenues	45,514	45,514	49,741	4,227
Expenditures:				
Salaries	12,000	12,000	11,964	(36)
Payroll taxes	1,300	1,300	1,231	(69)
Rent	3,000	3,000	3,000	-
Books	5,000	5,000	3,201	(1,799)
Membership dues	4,000	4,000	2,518	(1,482)
Telephone	450	450	684	234
Supplies	725	725	511	(214)
Insurance	275	275	276	1
Education	200	200	136	(64)
Transportation	100	100	212	112
Miscellaneous	3,582	3,582	643	(2,939)
Total expenditures	30,632	30,632	24,376	(6,256)
Excess (deficiency) of revenues over expenditures	14,882	14,882	25,365	10,483
Fund balance, beginning	162,781	162,781	162,781	-
Fund balance, ending	\$ 177,663	\$ 177,663	\$ 188,146	\$ 10,483

See accompanying notes to financial statements.

**ALANSON AREA PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Alanson Area Public Library was organized as a district library on March 24, 1977, under the provisions of Act 164, P.A. 1955, repealed and replaced by Act 24, P.A. 1989, as amended. The library operates under an appointed Board of Trustees. The Village of Alanson and Littlefield Township appoint two members each.

Reporting Entity

The Library has followed the guidelines of the Governmental Accounting Standards Board's Statement No. 14 and has determined that no entities should be consolidated into its financial statement as component units. Therefore the reporting entity consists of the primary government financial statement only.

Basis of Accounting

Basis of accounting refers to the point at which revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

In June 1999, the GASB issued Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis—for State and Local Governments. In accordance with Statement No. 34, the Library is considered to be a Special Purpose Government due to engaging in only one governmental type of activity. To conform with the Statement, the Library has included a Management's Discussion and Analysis section and the Library's basic financial statements are presented as combined government-wide and governmental fund financial statements.

The government-wide columns (Statement of Net Assets and Statement of Activities) are reported using the economic resources measurement focus and the accrual method of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund columns (Modified Accrual Basis) are reported using the resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. The Library considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred.

Fund Equity

Governmental funds report reserved fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for specific purposes. Designations of fund balance represent tentative management plans that are subject to change.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The Library uses the following procedure in establishing the budgetary data reflected in the financial statements:

Prior to the start of each fiscal year, an operating budget is adopted for the General Fund on a basis consistent with generally accepted accounting principles. Reported budgeted amounts are as originally adopted or as amended by the Library Board of Trustees. During the year, the Library did not expend in excess of budgeted amounts.

NOTE 3: DEPOSITS

Alanson Area Public Library's deposits consist of checking accounts and bank certificates of deposit. At year end, the carrying amount of the Library's deposits was \$188,693 and the bank balance was \$188,736. The entire amount was covered by federal depository insurance.

Michigan Compiled Laws, Section 129.91, authorizes the Local Unit to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

NOTE 4: CAPITAL ASSETS

Capital assets are defined by the Library as assets that are purchased or acquired with an original cost of \$1,000 or more and a useful life in excess of one year. The Library considers its collection of books to be a group asset which is the only asset capitalized by the Library. All books purchased during each year are capitalized as one asset amount with no depreciation being recorded in the first year. Capital assets and related depreciation are reported in the government wide columns of the financial statements. Depreciation is calculated using the straight line method and the books have an estimated useful life of five years.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 4: CAPITAL ASSETS – CONTINUED

Capital asset activity for the Library was as follows:

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2004</u>
Capital assets being depreciated:				
Books	\$ 50,000	\$ 3,201	\$ 5,000	\$ 48,201
Accumulated depreciation:				
Books	<u>35,000</u>	<u>5,000</u>	<u>5,000</u>	<u>35,000</u>
Governmental activities net Capital Assets	<u>\$ 15,000</u>	<u>\$ (1,799)</u>	<u>\$ -</u>	<u>\$ 13,201</u>

NOTE 5: OPERATING LEASES

The Library has a verbal lease agreement with the Littlefield Alanson Management Authority for its building. The Library pays an annual amount of \$3,000 and the lease can be terminated by either party at any time.

NOTE 6: DESIGNATED FUND BALANCE

The Library has designated \$100,000 for future development and improvement of the Library's current building or a new building.

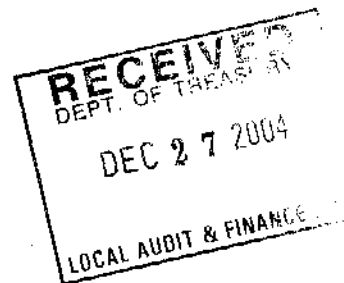
NOTE 7: RISK MANAGEMENT

The Library is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters.

The Library maintains workers compensation insurance for Library employees and contents insurance, however, the Library relies on the landlord of its building for liability insurance.



Hill • Schroderus & Co., LLP
Certified Public Accountants & Consultants



October 22, 2004

Library Board of Directors
Alanson Area Public Library
Alanson, MI 49706

In planning and performing our audit of the financial statements of the Alanson Area Public Library for the year ended June 30, 2004, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted a certain matter involving the internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Alanson Area Public Library's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Reportable Condition:

Budgeting procedures – P.A. 621, of 1978, as amended, requires that Local Units of Government prepare and adopt a budget prior to the beginning of each fiscal year. The Act also requires that the Local Unit hold a public hearing on its proposed budget. Additionally, it is required that a notice of public hearing be published in a local newspaper of general circulation at least six days in advance of the hearing. The Board should formally acknowledge the hearing date, date of adoption and any amendments to the budget in the board minutes.

Other comments:

We also prepared an exit conference outline for other matters that were discussed with management at an exit conference. The other matters were not considered reportable conditions, but were noted during the audit.

This report is intended solely for the information and use of the Alanson Area Public Library Board of Directors and is not intended to be and should not be used by anyone other than the specified party.

We would like to express our appreciation for the excellent cooperation we received while performing the audit. If we may be of further assistance, please do not hesitate to contact us.

Sincerely,

Hill Schroderus & Co.

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan